



GENERAL AMERICAN OIL COMPANY OF TEXAS

**32nd Annual Report
Year Ended June 30, 1968**



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FINANCIAL HIGHLIGHTS

	<i>Year Ended June 30, 1968</i>	<i>Year Ended June 30, 1967(1)</i>
Gross operating income	\$ 46,690,110	\$ 41,173,188
Operating income	\$ 19,356,474	\$ 16,508,720
Net income:		
Before extraordinary capital gains	\$ 17,124,525	\$ 12,829,943
From sale of Fargo Oils Ltd. stock and other assets, net of tax	6,197,880	—
Net income	\$ 23,322,405	\$ 12,829,943
Net income per common share (2):		
Before extraordinary capital gains	\$ 3.42	\$ 2.72
Extraordinary capital gains, net of tax	1.24	—
Net income per common share	\$ 4.66	\$ 2.72
Cash flow (3)	\$ 32,398,166	\$ 26,342,569
Cash flow per common share (2) (3)	\$ 6.48	\$ 5.59
Capital expenditures	\$ 13,347,123	\$ 7,680,309
Common stockholders' equity	\$167,046,091	\$127,544,623
Dividends paid per common share:		
Cash (4)	\$.55	\$.40
Stock	3%	3%

OPERATING HIGHLIGHTS

	<i>Year Ended June 30, 1968</i>	<i>Year Ended June 30, 1967</i>
Crude oil and condensate sales — net barrels . . .	10,498,750	9,299,141
Gas sales — net Mcf	65,933,251	60,718,442
Wells drilled — net	19	18
Wells operated — gross	1,862	1,927
Wells owned — net	1,815	1,861

- (1) Restated to include operations of Premier Petrochemical Company acquired October 20, 1967 and treated as a "pooling of interests".
- (2) Based on average number of shares outstanding, adjusted for stock issued as dividends and for Premier Petrochemical Company: 1968—4,999,677 shares; 1967—4,712,103 shares.
- (3) Net income before extraordinary capital gains, increased by non-cash expenses and expensed exploratory charges.
- (4) Quarterly cash dividend increased from \$.10 per share to \$.15 per share on January 2, 1968.

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OFFICERS AND DIRECTORS

OFFICERS

ALGUR H. MEADOWS, *Chairman of the Board and Executive Committee*
WILLIAM P. BARNES, *President*
FREDERICK H. CONNALLY, *Executive Vice President, Finance*
LEWIS P. O'NEILL, *Executive Vice President, Operations*
J. KENNETH RIGSBEE, *Secretary*
J. DONALD BROWN, *Vice President, Purchasing*
JAMES W. GOSS, *Vice President, Land*
JOE M. HAAS, *Vice President, Engineering*
JERE G. HAYES, *Vice President, Legal and Assistant Secretary*
FRED C. HIGGINBOTHAM, JR., *Vice President, and Treasurer*
CHARLES M. KENNEDY, *Vice President and Controller*
NORMAN W. KROUSKOP, *Vice President, Production*
GEORGE RHODUS, *Vice President and Assistant to the President*
ROBERT M. SWESNIK, *Vice President, Foreign Operations*
MALCOLM E. WILSON, JR., *Vice President, Geology*
JOHN T. REYNOLDS, *Assistant Vice President, Production*
MARTIN W. VERNON, *Assistant Vice President, Geology*
BRYAN T. CRENSHAW, *Assistant Secretary and Assistant Treasurer*
DONALD C. APELAND, *Assistant Secretary*
JOHN C. COOPER, *Assistant Secretary*

EXECUTIVE COMMITTEE

ALGUR H. MEADOWS, *Chairman*
WILLIAM P. BARNES
FREDERICK H. CONNALLY
LEWIS P. O'NEILL

DIRECTORS

ALGUR H. MEADOWS, *Chairman, Dallas, Texas*
RUSHTON L. ARDREY, *Dallas, Texas*
WILLIAM P. BARNES, *Dallas, Texas*
J. PORTER BURGESS,* *Monroe, Louisiana*
PAUL A. CONLEY, *New York, New York*
FREDERICK H. CONNALLY, *Dallas, Texas*
J. J. DANIEL, *Jacksonville, Florida*
JOSEPH W. DAVIN, *Jacksonville, Florida*
SYLVESTER DAYSON, *Winona, Texas*
CHARLES W. LEWIS, *New York, New York*
PAUL W. MATTHEWS, *Toronto, Ontario*
FREDERICK M. MAYER, *Dallas, Texas*
LEWIS P. O'NEILL, *Dallas, Texas*
J. KENNETH RIGSBEE, *Dallas, Texas*
CHARLES B. SHERROUSE, *Monroe, Louisiana*
GORDON SIMPSON, *Dallas, Texas*
JOHN M. STEPHENS, *Tyler, Texas*
JAMES R. STOCKTON, JR., *Jacksonville, Florida*
JIM M. VAUGHN, *Tyler, Texas*
BROWN L. WHATLEY, *Miami, Florida*

* Deceased August 17, 1968



PRESIDENT'S LETTER

TO THE STOCKHOLDERS:

All time record earnings resulting from oil and gas operations, coinciding with record earnings by wholly-owned subsidiaries, Stockton, Whatley, Davin & Company and Premier Petrochemical Company, carried GAO consolidated net income, before an extraordinary item, to \$17,124,525, or \$3.42 per share. This compares with \$12,829,943, or \$2.72 per share, in the prior year. Including the extraordinary item, profit on the sale of Fargo Oils Ltd. shares and other capital gains, net income was \$23,322,405, or \$4.66 per share. Cash flow, excluding the extraordinary capital gains, also at record heights was \$32,398,166, or \$6.48, compared with \$26,342,569, or \$5.59 for the preceding fiscal year.

These increases were principally the result of increased sales of oil and natural gas of 14% and 11½% respectively, although a modest increase of 3 cents per barrel received by the Company contributed.

Substantially increased amounts were spent in drilling, with the Block 45 field continuing to enjoy the greatest increase in activity. Preparations to increase exploration began by adding personnel in the Land and Geological departments and increasing the office space provided for these two departments by approximately fifty per cent. During the fiscal year just ended, the Company's inventory of wildcat leases was tripled and further increases are planned.

The sale of the Company's stock position in Fargo Oils Ltd. and the redemption of all of the Company's \$20,000,000 Subordinated Debentures during the fiscal year ended June 30, 1968, have brought about a position of financial strength in which the Company and its shareholders may take justifiable pride. This position enables the officers and employees of the Company to look forward to the challenges and opportunities of the ensuing year with confidence and enthusiasm.

Yours very truly,

A handwritten signature in dark ink, appearing to read 'W. F. Barnes'. The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

President

September 4, 1968
Dallas, Texas

DOMESTIC OPERATIONS

ACQUISITIONS

During the fiscal year just ended, the Company considered 114 submittals of producing oil and gas properties as possible acquisitions, and was successful in closing seven purchases. The total consideration for these purchases was about \$3.8 million in cash, notes and production payments. The properties consisted of various working interests in leases situated in South Louisiana, East Texas and West Central Texas. Company engineers estimated, as of the date of acquisition, that these properties would produce in the future 2.9 million barrels of oil and 5.2 billion cubic feet of gas, net to the Company's interest.

At year-end, the Company was evaluating thirteen oil and gas producing properties for possible acquisition and, at report time, had purchased one of these for a consideration slightly in excess of \$300,000. Acquired in this purchase were two wells in the Mount Sylvan Paluxy sand field, Smith County, Texas.

DRILLING

The Company drilled 16 wells during fiscal 1968 and participated in 41 wells drilled by partners, for a total of 57 wells. This com-

pares with 13 wells drilled by GAO and 25 by partners in 1967, for a total of 38 wells. The Company's interest was 17 net wells in 1968, compared with 11 in 1967. Of the 17 wells, 11.5 net wells were productive of oil or gas and 5.5 net wells were dry.

The 57 wells in 1968 accounted for approximately 620,000 feet of hole, or an average of 10,875 feet per well. This compares with approximately 366,000 feet drilled in 1967, or an average of 9,625 feet per well.

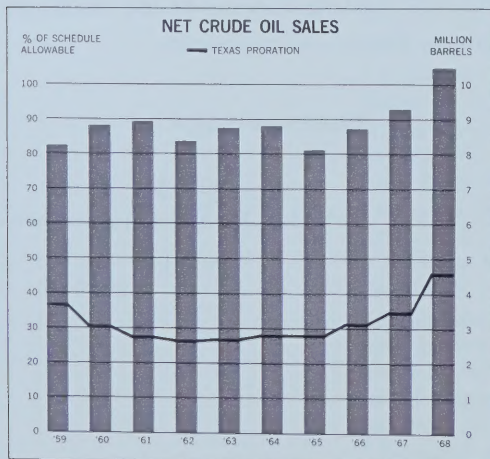
Details of well completions are shown on page 8.

In addition to the above, 45 wells, 22 productive of oil or gas, were drilled by others on leases in which the Company owns royalty or net profit interests.

PRODUCTION

The Company, at June 30, 1968, owned interests in domestic leases equivalent to 1,416 net oil wells and 194 net gas wells, a total of 1,610 net wells. This compares with 1,659 net wells at June 30, 1967. General American was the operator of 1,665 gross wells at June 30, 1968, compared with 1,730 at the beginning of fiscal 1968.

For fiscal 1968, net domestic oil sales were 9,155,093 barrels and net gas sales were 63,645,359 Mcf. These compare with 8,343,207 barrels and 58,342,666 Mcf. in fiscal 1967. They represent increases of 9.7% and 9.1% respectively — all time highs. Production in Louisiana and Texas accounted for the improvement. High gas demand and new wells largely accounted for the increased production of natural gas and condensate in Louisiana. Higher allowables in Texas were primarily responsible for the increase in Texas production. The average allowable for fiscal 1968 was 46.31% of the scheduled well allowables, an increase of one-third over the fiscal 1967 average allowable of 34.84%. Texas allowables have been cut since June 30, 1968, having been set at 41.3%



for September for an average of 44.2% for the three months ended September 30. Details of oil sales are shown on page 5 and details of gas sales on page 7.

Company operated leases produced 9,779,-813 gross barrels of oil and 112,029,177 gross Mcf. of gas in fiscal 1968, increases of 3.9% for oil and 8.7% for gas over the prior year.

ACREAGE

The Company on June 30, 1968, owned 623,821 net lease acres in the United States, of which 148,395 were producing and 475,426 were non-producing. Although net producing acres increased but slightly, net non-producing acreage nearly tripled. Acquisitions in Montana and North Dakota accounted for the increase, and are discussed under those captions. Details of acreage by states are shown on page 9.

LOUISIANA

An article in the Oil & Gas Journal recently included offshore Block 45 field, West Cameron Parish, in a list of offshore Louisiana's top dozen gas producing fields. The basis of the listing was cumulative gas production and Block 45 ranked eleventh on the list. This very important property was the focal point of Company operations last fiscal year. Since the completion on August 1, 1967, of General American OCS 301 State Lease 1137 #2 as a triple producer, eleven additional wells have been drilled. Of these, only one well was dry. Eight of the producing wells are triple completions, making a total of twenty-seven completions.

Facilities to produce the newly developed portion of the Block 45 field are complete and production from this source should make a substantial contribution to the Company's operating revenue this fiscal year.

A well on the northeastern portion of GAO's 8,125-acre lease block is presently drilling. This well, which is being drilled as a

"tight hole", is scheduled to be drilled to a depth of 16,000 feet. Several additional wells are planned to test other portions of the Company's Block 45 leases.

Previously mentioned in an interim report was the No. 1 Zaunbrecher well drilled by GAO and others at Southeast Gueydan, Vermilion Parish. This well, a west offset to the No. 1 Zaunbrecher-Hardee Unit discovery well for deep Camerina sands, potentialed 5,100,000 cubic feet of gas per day with 6,144 pounds surface flowing pressure. The Company paid 32.1875 per cent of the cost of drilling this well under a cost-sharing agreement with other operators. The Company's exact interest in production from this well will be determined in a hearing before the Louisiana Department of Conservation.

In the Fordoche field, Pointe Coupee Parish, the second well has been completed and the third is drilling on a 2,450-acre block farmed out to a major oil company under a continuous development program, in which

SALES OF OIL — BARRELS

Year Ended June 30

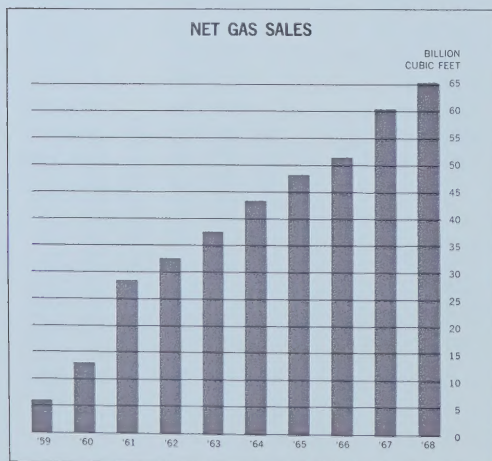
	<u>1968</u>	<u>1967</u>
<i>United States:</i>		
Texas	5,061,733	4,420,140
Louisiana	2,379,212	2,045,096
Oklahoma	642,291	688,232
New Mexico	737,923	791,531
Kansas	177,905	211,621
California	100,282	111,702
Illinois	34,532	46,770
Other States	21,215	28,115
	<u>9,155,093</u>	<u>8,343,207</u>
<i>Canada:</i>		
Alberta	30,016	24,706
British Columbia ..	264,670	224,279
Saskatchewan ...	1,048,971	706,949
	<u>1,343,657</u>	<u>955,934</u>
	<u>10,498,750</u>	<u>9,299,141</u>

General American retained a 10 per cent overriding royalty, convertible to a 50 per cent net profits overriding royalty in each well after payout. The second well potentialized through small chokes 352 barrels of oil per day from the W-8 sand and 404 barrels from the W-12 sand.

West of the Hollywood field, Terrebonne Parish, the Company and others were unsuccessful in extending deep production with the abandonment of General American #8 South-down Sugars at a total depth of 14,775 feet.

MONTANA

By report date, twelve wells have been drilled as a part of the forty well drilling program in the Powder River Basin, in which the Company has a one-half interest. All of these wells were dry but have yielded subsurface data which will be very useful in evaluating General American's lease acreage, which remains highly prospective in the opinion of Company geologists. GAO now holds 245,634 net lease acres in the Powder River Basin situated in Carter, Custer, Fallon, Powder River and Prairie Counties, Montana. The Company's portion of costs for lease acquisitions and the forty well program will be approximately \$1,000,000.



NORTH DAKOTA

In Oliver County, the Company has purchased a wildcat lease block of approximately 70,000 acres for future exploration. At present, an evaluation of seismic data from this acreage is in progress and an additional seismic program for this lease block is being planned.

NEW MEXICO

Tests have recently been conducted in the field on the world's first gas well to be stimulated by nuclear explosion. "Project Gas-buggy" is a joint venture of the Atomic Energy Commission, El Paso Natural Gas Company and the Bureau of Mines, and involved the successful firing of a nuclear device on December 10, 1967 on lease acreage in San Juan County, New Mexico, in which the Company owns a net profits overriding royalty interest. The latest tests involved producing the well for a short period of time and gas analysis. Published reports term the test as encouraging but inconclusive. The Company's 25 per cent net profits interest is in 50,000 net acres in the immediate vicinity of this interesting experiment.

PIPELINE

General American Pipe Line Company, a wholly-owned subsidiary, operates a gathering system of 208 miles in the East Texas field, connected to approximately 1,900 wells. A 40-mile trunk line extends from this system to a main line of The Pure Oil Company, a division of Union Oil Company of California, at Bullard, Texas.

In fiscal 1968, the Company purchased 6,158,300 barrels of oil, up 19% from the 5,168,400 barrels purchased in fiscal 1967. Higher allowables in Texas — up 33% from the prior year — accounted for the increase.

The Company, in fiscal 1968, sold 5,230,282 barrels of crude to Pure under a long-term contract, compared with 4,904,000 barrels in fiscal 1967.

FOREIGN OPERATIONS

CANADA

Production of General American Oils, Ltd., a wholly-owned Canadian subsidiary, for the fiscal year 1968 amounted to 1,343,657 barrels of oil and 2,287,892 Mcf. of gas in comparison to 955,934 barrels of oil and 2,375,776 Mcf. of gas for 1967. A production increase of 40.6% in oil and a decrease of 3.7% in gas was realized during the past fiscal year.

The Company operates 286 producing or injection wells in the Coleville field, which is continuing to show excellent progressive response to the recently completed waterflood system. Total production has increased from the past year's 700,045 net barrels of oil to 1,043,715 net barrels, a gain of 49.1% during fiscal 1968. A further increase of 25 to 30% is anticipated for the coming year.

The Blueberry and Inga oil fields in north-eastern British Columbia account for most of the balance of the Company's Canadian production: 18 wells produce oil from the Mississippian limestone and 16 wells produce oil from the Triassic Inga sandstone. The Company owns varying interests in these properties. The Inga field is in the final stages of unitization, by which it will become Inga Unit No. 1. General American will own an 11.19% interest in the unit. Engineering studies, encompassing a secondary recovery program by waterflooding, are still in progress, and estimates of up to 24,000,000 barrels of recoverable oil are considered feasible.

Another oil field, the South Inga field, was discovered during the past year along the eastern edge of the Blueberry properties. Its northern productive limits, also from the Triassic Inga sand, extend to within one mile of the southwestern boundary of the proposed Inga Unit No. 1. The South Inga field is presently undergoing development drilling, which is proving to be substantial. It appears that the western flank of this field may extend into the Company's Blueberry leases. There are presently off-set drilling obligations which

are currently being considered. The Inga sand is also proving to be a gas producer, for the Company participated in a new gas discovery, extending some six miles to the north of the main Inga oil field. Nine wells were drilled to the Inga horizon this past year, of which: two were completed as oil wells, one as a shut-in high-gas-ratio oil well, and one as a gas well. One well was completed in the Nikinassin as a gas well and the remaining four were dry and abandoned.

In the Fort Nelson area of British Columbia, one development gas well in the Yoyo field was completed with an absolute open flow potential of 65 million cubic feet per day. The Company has a net profit interest of 25% in this and 12 other gas wells on leases comprising 237,523 acres in the Kotcho, Yoyo, Kathy, Cabin Creek, and Petitot areas. Although the Westcoast Transmission pipeline was completed last year, due to an extensive testing program and pipe ruptures, the line has not yet reached operational status. It is anticipated that gas sales will commence this coming fall. Several development and a few exploratory wells are contemplated for this coming winter's drilling season.

SALES OF GAS — MCF

Year Ended June 30

	<u>1968</u>	<u>1967</u>
<i>United States:</i>		
Texas	5,968,779	6,572,792
Louisiana	54,405,492	48,227,251
Oklahoma	651,683	866,700
New Mexico	1,825,302	1,855,115
Kansas	241,589	287,078
Other States	552,514	533,730
	<u>63,645,359</u>	<u>58,342,666</u>
<i>Canada:</i>		
British Columbia	624,242	717,859
Saskatchewan ...	1,663,650	1,657,917
	<u>2,287,892</u>	<u>2,375,776</u>
	<u>65,933,251</u>	<u>60,718,442</u>



WELL COMPLETIONS

Year Ended June 30, 1968

Gross Wells

Net Wells

UNITED STATES — Company Operated		Depth (Feet)	Total	Development			Exploratory			Total	Development			Exploratory		
				Oil	Gas	Dry	Oil	Gas	Dry		Oil	Gas	Dry	Oil	Gas	Dry
Louisiana	Block 45, Cameron Ph.	12,100	11*	1	10*					5.50*	.50	5.00*				
	Perkins, Calcasieu Ph.	7,200	2	2						.88	.88					
	Hollywood, Terrebonne Ph.	14,800	1			1				.35			.35			
	Wildcat, Assumption Ph.	12,700	1						1	.75						.75
Texas	East Texas, Rusk Co.	3,700	1	1						.64	.64					
Total			16	4	10	1			1	8.12	2.02	5.00	.35			.75
UNITED STATES — Partner Operated																
Louisiana	Andrew, Vermilion Ph.	15,400	1					1		.02					.02	
	Bayou St. Vincent, Assumption Ph.	14,500	1			1				.19			.19			
	So. Chauvin, Terrebonne Ph.	16,500	2			1			1	.51			.01			.50
	S. E. Gueydan, Vermilion Ph.	19,000	2		2					.57		.57				
	Hollywood, Terrebonne Ph.	12,500	1		1					.04		.04				
	E. Lake Verrett, Assumption Ph.	12,400	1					1		.16					.16	
	Maurice, Vermilion Ph.	15,500	1		1					.08		.08				
	Montegut, Terrebonne Ph.	12,300	2	1	1					.12	.06	.06				
	Block 16, Vermilion Ph.	15,600	5		2	1		1*	1	.30		.27	.01		.01*	.01
Montana	Wildcats, Custer & Prairie Co.	9,000	6						6	3.00						3.00
New Mexico	Basin, Rio Arriba Co.	8,200	2		2					.18		.18				
Oklahoma	Sho-Vel-Tum, Carter Co.	2,400	1	1						.45	.45					
Texas	Birthingright, Hopkins Co.	10,100	3	2		1				.11	.08		.03			
	Brantley-Jackson, Hopkins Co.	9,400	3	3						.35	.35					
	Dora Roberts, Midland Co.	12,400	1		1					.31		.31				
	E. Ft. Trinidad, Houston Co.	9,200	1	1						.50	.50					
	Talco, Franklin Co.	4,400	2	2						1.00	1.00					
	Wasson, Yoakum Co.	5,400	3	3						.06	.06					
	Wildcat, Knox Co.	5,200	1						1	.50						.50
	Wildcat, Ector Co.	9,500	1						1	.14						.14
	Wildcat, Shackelford Co.	4,700	1				1			.41				.41		
Total			41	13	10	4	1	3	10	9.00	2.50	1.51	.24	.41	.19	4.15
TOTAL UNITED STATES			57	17	20	5	1	3	11	17.12	4.52	6.51	.59	.41	.19	4.90
CANADA																
British Columbia																
	Blueberry Area	5,400	7	2	2			2	1	1.89	.58	.58			.44	.29
TOTAL COMPLETIONS			64	19	22	5	1	5	12	19.01	5.10	7.09	.59	.41	.63	5.19

*Dual or multiple completions shown as single well.

Not included in the above: 2 salt water disposal wells and 3 water injection wells.

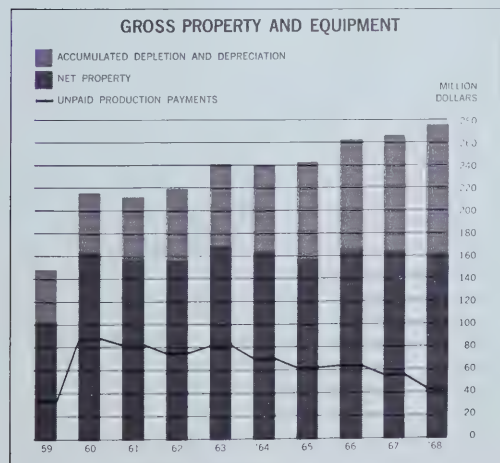
Gas sales income has been derived mainly from the Coleville-Smiley Viking gas unit in Saskatchewan and the Blueberry field in British Columbia, the latter producing associated and non-associated gas. The balance of gas and oil income is derived from the Swan Hills Unit, the Lanaway properties, the South Epping Unit, and the North Eureka Unit, in which the Company owns small interests.

SPAIN

General American is continuing its exploration program in Spain, operating through Valdebro, a venture owned 51% by the Instituto Nacional de Industria (INI), a branch of the Spanish Government, and 49% by an American Group. GAO has a 71% participation interest in the American Group.

The exploration program, which formerly encompassed the entire Iberian Peninsula, has been considerably reduced, operations now centering on six remaining concessions in northern Spain. One well, Liermo No. 1, was drilled last year under the independent operating clause (at no cost to the American Group) on the Santander Permit to a depth of 8,077 feet in the Triassic and was abandoned.

Detailed seismic investigations in the Retuerta Concession revealed that large closures were present in the subsurface. Regional strati-



NET ACRES UNDER LEASE

as of June 30, 1968

	Producing	Non-Producing
UNITED STATES		
Arkansas	240	—
California	2,933	161
Colorado	1,120	5,500
Illinois	623	—
Kansas	8,730	3,745
Louisiana	40,726	27,343
Mississippi	142	21,227
Montana	—	245,634
New Mexico (1) ..	15,226	52,451
North Dakota	—	73,457
Oklahoma	8,572	40
Texas	70,026	41,757
Wyoming	57	4,111
	<u>148,395</u>	<u>475,426</u>
CANADA		
Alberta	116	1,029
British Columbia (3)	8,033(2)	166,717
Northwest Territories	419(2)	32,897
Saskatchewan	13,930	—
	<u>22,498</u>	<u>200,643</u>
Totals	<u>170,893</u>	<u>676,069</u>

- (1) Includes 49,770 acres in which the Company owns oil rights (which are held by gas production) but owns only a net profits interest in gas production.
- (2) Gas wells have been assigned 640 acres and oil wells 40 acres, although a greater area may be proven for production.
- (3) Includes 108,467 acres which represent net profit overriding royalty interests under approximately 429,750 gross acres.

graphic studies indicated that the producing horizons of the Ayoluengo oil field could be expected in the area of seismic closures. An exploratory well, Arco Iris, was spudded on April 5, 1968, to test one of the more favorable appearing closures, but was abandoned at a depth of 7,178 feet. The well ran structurally very high and there were some important oil shows recovered from cores and drill stem tests. The group is cautiously optimistic that a commercial field will be discovered on this concession, and a new well has been programmed to test another structure approximately 8 kilometers north of Arco Iris.

RESERVES

Company engineers estimate the proven net reserves as of June 30, 1968, to be 137.7 million barrels of crude oil and condensate and 1,013.4 billion cubic feet of gas. There is included in these reserves 10.05 million barrels of crude oil and condensate and 135.99 billion cubic feet of gas applicable to the liquidation of principal and interest of production payments. Despite production of just under 10% million barrels of oil and 66 billion cubic feet of gas, reserves were maintained at approximately the same level as last year by drilling, property acquisitions and active exploitation of the Company's older producing properties.

These estimates do not include reserves recoverable by secondary recovery methods, unless active operations have been started or unless pilot floods have been successfully operated in the same or similar fields in the area.

No gas reserves are carried for the Company's 25% net profit interests in northeastern British Columbia under some 437,000 acres, on which there are six shut-in gas fields currently under development. It is not possible to make meaningful estimates of these reserves because of the very limited development and the lack of any production history.

PERSONNEL

REMUNERATION

The average number of employees in the various operations and their direct remuneration for the fiscal year is shown below:

	Number	Compensation
Oil and gas operations	403	\$3,138,655
SWD, excluding Club	390	2,647,580
Ponte Vedra Club	316	929,676
Premier Petrochemical Co.	26	258,700
Meadows Building	41	158,896
	<u>1,176</u>	<u>\$7,133,507</u>

There were 15 more employees, up 1.3%, however, total compensation was up approximately \$474,000, or over 7%, from last year.

STOCK BONUS PLAN

The Company contributes an amount equal to 10% of direct compensation of participating employees into the Stock Bonus Plan. GAO shares are purchased by the Plan in the open market. At June 30, 1968, the Plan owned 81,401 shares purchased at a cost of \$2,143,768, or \$26.34 per share.

RETIREMENT PLAN

The retirement plan is self administered on an actuarial basis. Although there are sub-

stantial other investments, the Meadows Building, which houses the general offices of the Company, continues to be the principal asset of the Trust. The cost is 13.2% of the direct compensation of eligible employees, of which 7.6% is for funding the past service deficiency. In lieu of an actuarial retirement plan, SWD has a profit sharing plan — 10% of net profits before income taxes. See "Notes to the Financial Statements".

IN MEMORIAM

J. Porter Burgess passed away on August 17, 1968. He had served as a director of the Company from its founding in 1936 until May 17, 1968, when he resigned for reasons of ill health.

J. Ray Hollis died on March 13, 1968. He had served the Company in various capacities since its beginning, and on August 25, 1961 was elevated to the presidency of General American Pipe Line Company.

Thomas K. Cambre, a landman employed on November 1, 1965, was killed in the fatal crash of a Braniff plane on May 3, 1968.

STOCKTON, WHATLEY, DAVIN & COMPANY

The Company's wholly-owned subsidiary, Stockton, Whatley, Davin & Company, completed the most successful year in its history. Net income of \$1,820,045 exceeded last year's previous record high of \$1,493,506 by 22%. Of special significance is the fact that this year's total income was derived from operating departments of the company, whereas \$357,610 of last year's profit came from the sales of certain properties held for investment.

All departments participated in the gain in operating revenues. For the second consecutive year, SWD's insurance agency exceeded the million dollar mark in commissions. Total commissions amounted to \$1,097,118 from premiums of \$4,651,718. Real estate commissions increased substantially during the year to \$453,000, and this represents a 43% increase over the prior year. The Ponte Vedra Club completed another very successful year and reported net income of \$453,845, compared with a net income of \$426,093 for the previous year. Construction of an additional 32 rooms is under way at PonteVedra, which will increase capacity to 157 rooms. Mortgage production set an all time record. SWD closed 4,990 loans for a record volume of \$92,616,232, representing a 28% increase over the prior year's volume of \$72,183,000.

FHA and VA residential loans accounted for \$72,400,000, which was 78% of the total volume produced. This represents a 29% increase over the volume produced the previous year. In addition to these loans, commitments were received on four FHA project loans totalling \$7,767,900, a part of the \$1 billion Life Insurance Company Program on Urban Problems to improve housing conditions for low income families.

Loans closed on income producing properties amounted to \$19,500,000 as compared to \$11,100,000 the previous year, representing a 76% increase. Even more significant was the total of \$50,400,000 in income loan commitments received during the year as compared to \$20,500,000 last year. Most of these projects

are now under construction and will be reflected in next year's closings.

As of June 30, 1968, the mortgage servicing portfolio had reached an all-time high of \$651,768,300. This represents 56,917 loans and compares with a portfolio of \$571,281,000 at the end of the previous year. Part of this increase resulted from the purchase of the Florida portfolio of Jay F. Zook, Inc. Located in the Tampa Bay area, these loans added \$30 million to the servicing volume. The net increase from operations, however, was \$50.4 million, an increase of 61% over 1967.

Since 1961, SWD has furnished management for Arvida Corporation under the terms of a management contract entered into in December of that year. For its services to Arvida, SWD receives an annual fee and a related stock option under the terms of an agreement with The Pennsylvania Railroad Company (now Pennsylvania New York Central Transportation Co.) dated July 26, 1965. At the time of entering into this agreement, SWD purchased 222,351 shares of Arvida common stock for \$1,334,106, or \$6.00 per share. Based on the quoted bid price for Arvida stock on August 29, 1968 of 15½, SWD has an unrealized profit of 9¼ per share, or \$2,056,747.

SWD has not exercised any of its options provided for in the Pennsylvania Railroad agreement, but under the terms of the agreement it is in a position to do so as to 759,975 shares. The option on the remaining 163,723 shares may not be exercised before July 26, 1969. The option price currently applicable is \$7.44 per share. After July 26, 1969, the option price applicable to all shares not previously purchased will be \$7.80. Assuming the latter cost of the shares, SWD has a potential profit in the unexercised options of \$6,881,550, based on the present quoted market price. The options expire on July 25, 1970. Arvida shares acquired under the option are to be held by SWD as an investment and not with a view to or for sale.

PREMIER PETROCHEMICAL COMPANY

The plan of merger with Premier Petrochemical Company, outlined in the Annual Report for last year, was consummated on October 20, 1967, and has been accounted for as "a pooling of interests". Premier called its \$600,000 preferred shares (\$210,000 owned by GAO) prior to the merger. General American issued, on a 1 for 3 basis, 34,240 common shares for the 68.5%, or 102,750 shares, of Premier held by others than GAO, cancelled \$840,000 Premier debentures held by GAO, and redeemed \$1,560,000 Premier debentures held by others.

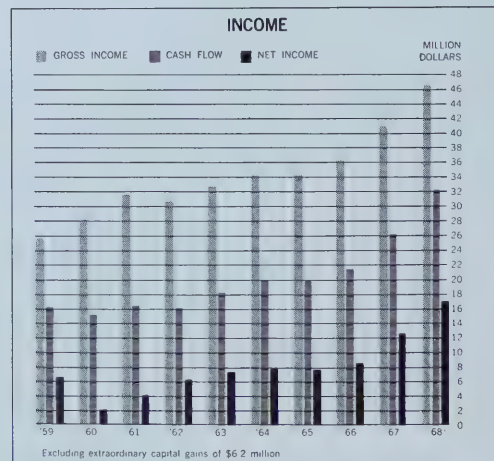
Although the net income of Premier for fiscal 1968 was \$712,694, an increase of 11.6%, the year was somewhat disappointing. Profit on sales was down \$112,000, or 9%, but was more than offset by interest savings, as a result of the redemption of debentures, and reduced depreciation charges. A very wet spring reduced urea sales and put prices under pressure. Due to high inventories, the plant was operated at reduced capacity for the four months ended June, 1968, in order to balance production with sales. The plant inventory at June 30, 1968 was 14,300 tons of urea, compared with 18,400 tons as of a year earlier.

In June, 1968, an export order for 5,500 tons of urea to India was finalized, allowing the plant to return to full capacity of approximately 220 tons per day. Since the year-end, bids have been accepted for 45,000 metric tons of fertilizer grade urea for export, which, according to present shipping instructions, should absorb production to February, 1969. Sales prospects for the coming fiscal year, therefore, are the most encouraging since the start-up of operations.

Construction has begun on the previously announced melamine plant adjacent to the urea plant. Plans contemplate completion of these facilities in the last quarter of the 1969 fiscal year. The plant is designed to produce

20 million pounds of melamine crystal annually, using the Dutch State Mines process licensed from Stamicarbon N. V., Heerlen, the Netherlands. The base materials are ammonia and carbon dioxide, which are converted into urea, which in turn is converted into melamine. Arthur G. McKee and Company, Cleveland, Ohio, will engineer, procure equipment and construct the plant at an estimated cost of \$5,700,000, including the Stamicarbon licenses.

Melamine is used in the plastics industry, some of the principal end uses being: moulding compounds, as for plastic dinnerware; laminates for counter and table tops, as in Formica; adhesives; textile treating; paper coatings and surface coatings, such as auto enamels. With improving technology, the cost of melamine should be reduced, allowing expansion of its present uses and the creation of new markets. At present, approximately 37% of the melamine imports are supplied from Japan through the Galveston-Houston ports. The location of the plant in the Houston area should make it competitive with these imports, and is probably the most favorable location in the United States from a marketing standpoint.



FINANCIAL REVIEW

INCOME

For the year ended June 30, 1968, new records were achieved in every segment of the Company's operations. Net income, excluding extraordinary capital gains, was \$17,124,525, an increase of \$4,294,582, or 33.5%. This is an increase of 25.7% per share to \$3.42 from \$2.72, computed on the average number of shares outstanding in each year. The 1968 average was increased by conversion of debentures, resulting in the issuance of 551,841 capital shares between November 17, 1967, and January 19, 1968. Extraordinary capital gains, mainly from the sale of Fargo Oils Ltd. stock, added additional income in fiscal 1968 of \$6,197,880 or \$1.24 per share.

Gross operating income was \$46,690,110, up \$5,516,922, or 13.4%. Of the increase, \$5,118,783, or 92.8%, was from sales of crude oil and natural gas, which were up 14% and 11½%, respectively.

Operating expenses were \$27,333,636, up \$2,669,168, or 10.8%. Taxes and provisions for depletion and depreciation, related to the increased production, accounted for \$1,474,473, or 55%, of the increase. Exploratory expenses accounted for \$606,064, or 23%. Field and administrative costs were up \$588,631, or 7.4%, and accounted for 22% of the increase.

Interest expense was \$3,677,025, a decrease of \$1,164,124 or 24%; and interest and miscellaneous income rose to \$1,445,076, an increase of \$282,704, or 24%. These improvements were the result of the normal applications on the principal of production payments payable, which amounted to \$14,448,770, compared to \$11,028,504; the conversion or redemption of the debentures, called effective January 19, 1968; and a better return on invested current funds.

WORKING CAPITAL

At June 30, 1968, working capital was \$16,003,462, an improvement of \$8,806,266

during the year. The current ratio was 2.69 to 1, compared with 1.98 to 1 as of a year earlier. The improvement was partly the result of the sale in June, 1968, of a "carved out" production payment of \$6,250,000 for tax reasons. In June, 1967, a production payment of only \$1,000,000 was sold.

INVESTMENTS

As stated in the Annual Report for last year, the Company, on September 7, 1967, sold its entire holdings in Fargo Oils Ltd., consisting of 2,310,626 common shares, to Reserve Oil and Gas Company. Consideration was \$4.80 per share in cash, or a total of \$11,091,005. The profit, after expenses and income taxes, amounted to \$5,632,870, or \$1.13 per share, which is included under extraordinary capital gains.

In spite of the sale of Fargo stock, carried at a cost of \$4,269,420, investment accounts decreased only \$937,094, as a result of the additional investments in Premier and earnings of both Premier and SWD. The investments in these unconsolidated wholly-owned subsidiaries are carried at the book equity or net asset value as reflected on their respective books.

OTHER ASSETS

Other assets were \$22,156,292, reflecting an increase of \$4,523,239. The entire increase was in accounts collectable from production, which stood at \$21,352,446. A large part of the increase resulted from the extensive drilling program in the offshore Block 45 field. Net profit royalty interests are treated for financial accounting as outside joint interests, and costs applicable thereto, less applicable income, are charged into these accounts. Upon payout of the related production payments, the funds being applied thereon will revert to and quickly liquidate the net profit balances.

PROPERTY

Net property and equipment accounts were \$163,968,746 at June 30, 1968, having decreased \$823,859, because provisions for depletion and depreciation exceeded the additions to the accounts. The balances of unpaid production payments of \$43,685,002 reflected a decrease of \$12,857,924. The Company's equity in properties therefore increased by over \$12,000,000.

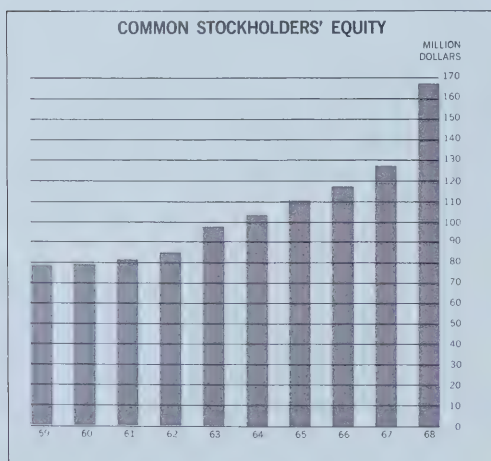
LONG-TERM DEBT

The Company called for redemption on January 19, 1968, the \$20,000,000 Subordinated Debentures. This resulted in the conversion of all except \$663,000 of the Debentures, which were paid. The conversions resulted in the issu-

ance of 551,841 common shares. Substantial cash savings were effected as a result of the early conversion, which obviously would have been made before the expiration of such rights in 1969, providing the price of GAO shares had not dropped below the conversion price of \$34.47 per share.

DEFERRED INCOME

Deferred income of \$6,294,636 on June 30, 1968, resulted from the year-end sale of the \$6,250,000 production payments mentioned under "Working Capital". It is the Company's policy to defer the income from such sales and to report the income only as the oil and gas is produced and the sale proceeds thereof applied on the production payments.



CAPITAL

The equity of stockholders at June 30, 1968, was \$167,046,091, an increase of \$39,501,468 during the year. The issuance of 551,841 shares on conversion of the Debentures, previously discussed, accounted for \$19,042,360 of the increase. Outstanding shares were further increased by 34,240 shares issued in connection with the acquisition of Premier Petrochemical Company and by 145,863 shares issued on January 2, 1968, as a 3% stock dividend. On that date the quarterly cash dividend was raised from \$.10 per share to \$.15 per share.



ACCOUNTANTS' REPORT

GENERAL AMERICAN OIL COMPANY OF TEXAS
AND CONSOLIDATED SUBSIDIARIES

Board of Directors
General American Oil Company of Texas
Dallas, Texas

We have examined the consolidated balance sheet of General American Oil Company of Texas and its consolidated subsidiaries as of June 30, 1968, and the related statements of consolidated income, earned surplus, capital surplus, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Our opinion expressed herein, insofar as it relates to the amounts included for the Stockton, Whatley, Davin & Company investment and net income, is based upon the report of other accountants who examined the financial statements of that unconsolidated wholly-owned subsidiary.

In our opinion, the accompanying balance sheet and statements of income, earned surplus, capital surplus, and source and application of funds present fairly the consolidated financial position of General American Oil Company of Texas and its consolidated subsidiaries at June 30, 1968, and the consolidated results of their operations and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Dallas, Texas
August 19, 1968

Ermitt + Ernst



STATEMENT OF CONSOLIDATED INCOME

GENERAL AMERICAN OIL COMPANY OF TEXAS
AND CONSOLIDATED SUBSIDIARIES

	<i>Year Ended June 30, 1968</i>	<i>Year Ended June 30, 1967*</i>
GROSS OPERATING INCOME		
Crude oil, condensate and casinghead products (Note A).....	\$ 31,572,931	\$ 27,688,408
Natural gas (Note A).....	11,923,514	10,689,254
Net income of Stockton, Whatley, Davin & Company (Note C)	1,820,045	1,493,506
Net income of Premier Petrochemical Company (Note C)	712,694	638,466
Transportation and other.....	660,926	663,554
	<u>46,690,110</u>	<u>41,173,188</u>
OPERATING EXPENSES		
Operating expenses, exclusive of those set forth below.....	6,326,221	6,047,050
General and administrative expenses.....	2,246,896	1,937,436
Taxes (includes state taxes on income: 1968 — \$45,627; 1967 — \$35,533) (Note A).....	3,486,878	3,167,356
Depletion and depreciation (Note B).....	13,098,222	11,943,271
Dry holes and abandonments.....	1,857,940	1,274,036
Lease rentals	317,479	295,319
	<u>27,333,636</u>	<u>24,664,468</u>
OPERATING INCOME	<u>19,356,474</u>	<u>16,508,720</u>
OTHER (INCOME) AND DEDUCTIONS		
Interest expense (Note A).....	3,677,025	4,841,149
Interest and miscellaneous income.....	(1,445,076)	(1,162,372)
	<u>2,231,949</u>	<u>3,678,777</u>
INCOME BEFORE EXTRAORDINARY ITEM	<u>17,124,525</u>	<u>12,829,943</u>
EXTRAORDINARY ITEM (Gain on sale of Fargo Oils Ltd. stock and other capital gains net of applicable income tax of \$1,080,491) (Note E)	6,197,880	—
NET INCOME (Notes A and E)	<u>\$ 23,322,405</u>	<u>\$ 12,829,943</u>
INCOME PER COMMON SHARE		
Income before extraordinary item.....	\$3.42	\$2.72
Extraordinary item — net of tax.....	1.24	—
Net income	<u>\$4.66</u>	<u>\$2.72</u>
PRO FORMA INCOME PER COMMON SHARE, REFLECTING CONVERSION, (Note D)		
Income before extraordinary item.....	\$3.31	\$2.62
Extraordinary item — net of tax.....	1.18	—
Net income	<u>\$4.49</u>	<u>\$2.62</u>

* Restated — see Note C.

See notes to financial statements.



SOURCE AND APPLICATION OF FUNDS

GENERAL AMERICAN OIL COMPANY OF TEXAS
AND CONSOLIDATED SUBSIDIARIES

SOURCE OF FUNDS

	<i>Year Ended June 30, 1968</i>	<i>Year Ended June 30, 1967*</i>
Income before extraordinary item.....	\$ 17,124,525	\$ 12,829,943
Add: Depletion and depreciation.....	13,098,222	11,943,271
Dry holes, abandonments and lease rentals.....	2,175,419	1,569,355
Funds provided from operations.....	32,398,166	26,342,569
Sale of Fargo Oils Ltd. stock and other capital gains, net of \$1,080,491 income tax.....	10,467,300	—
Proceeds from sale of "carved-out" production payments.....	6,250,000	1,000,000
Disposal of properties.....	313,867	1,302,464
Less: Production payments assumed.....	—	(391,907)
Note payable assumed.....	—	(426,690)
Total	49,429,333	27,826,436

APPLICATION OF FUNDS

Capital expenditures:		
Drilling and related equipment costs.....	8,185,405	5,059,654
Gasoline plants and other facilities.....	1,720,027	530,265
Undeveloped leases and rentals.....	1,642,017	378,482
Acquisitions of producing properties.....	3,828,674	5,163,601
Less: Acquisition production payments.....	(2,029,000)	(3,451,693)
	13,347,123	7,680,309
Liquidation of reserved production payments.....	14,448,770	11,028,504
Liquidation of "carved-out" production payments...	1,325,938	1,674,062
Additions to accounts collectible solely from production — net	4,600,475	1,574,016
Investments in and advances to unconsolidated subsidiaries	3,332,433	1,603,737
Cash dividends to stockholders.....	2,761,699	1,786,400
Redemption of Debentures not converted.....	663,000	—
Other	143,629	40,351
Total	40,623,067	25,387,379

INCREASE IN WORKING CAPITAL.....	\$ 8,806,266	\$ 2,439,057
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* Restated — see Note C.

See notes to financial statements.



CONSOLIDATED BALANCE SHEET

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

ASSETS		
	<i>June 30, 1968</i>	<i>June 30, 1967*</i>
CURRENT ASSETS		
Cash and certificates of deposit.....	\$ 13,258,824	\$ 7,387,104
Accounts and notes receivable.....	7,510,069	6,439,540
Note receivable from Stockton, Whatley, Davin & Company.....	4,000,000	—
Inventories and prepaid expenses.....	686,989	738,525
Total current assets.....	25,455,882	14,565,169
INVESTMENTS		
Investment in Stockton, Whatley, Davin & Company (Note C).....	11,247,430	10,277,385
Investment in and advances to Premier Petrochemical Company (Note C).....	3,535,742	1,173,354
Fargo Oils Ltd. stock — at cost.....	—	4,269,420
Other stocks and debentures — at cost.....	114,057	114,164
Total investments.....	14,897,229	15,834,323
OTHER ASSETS		
Accounts collectable solely from production.....	21,352,446	16,751,971
Advances to joint ventures, etc.....	285,990	111,670
Cash surrender value of life insurance.....	517,856	495,284
Unamortized debt expense.....	—	274,128
Total other assets.....	22,156,292	17,633,053
PROPERTY AND EQUIPMENT (at cost)		
Producing oil and gas properties (Note A).....	264,320,652	256,813,560
Gasoline plants, pipelines and other equipment.....	8,570,400	7,073,433
Undeveloped leases and royalties.....	4,019,550	3,083,102
	276,910,602	266,970,095
Less accumulated depletion and depreciation (Note B).....	112,941,856	102,177,490
	163,968,746	164,792,605
Less unpaid production payments (Note A).....	43,685,002	56,542,926
Total property and equipment.....	120,283,744	108,249,679
	<u>\$182,793,147</u>	<u>\$156,282,224</u>

* Restated — see Note C.

See notes to financial statements.

LIABILITIES AND CAPITAL

	<i>June 30, 1968</i>	<i>June 30, 1967*</i>
CURRENT LIABILITIES		
Accounts payable	\$ 8,527,761	\$ 6,864,117
Accrued interest and general taxes	658,906	503,856
Federal income taxes payable	265,753	—
Total current liabilities	9,452,420	7,367,973
 LONG-TERM DEBT		
4% Subordinated Debentures (Note D)	—	20,000,000
 DEFERRED INCOME (includes proceeds from production payments sold: 1968 — \$6,250,000; 1967 — \$1,325,938)	 6,294,636	 1,369,628
 CAPITAL		
Common shares, par value \$5.00 per share: Authorized 7,500,000 shares Issued: 1968 — 5,263,944; 1967 — 4,532,000	 26,319,720	 22,660,000
Capital surplus (includes transfers from earned surplus of \$55,470,921 through 1968, representing the excess of market value over par of common share dividends)	78,026,103	56,597,827
Earned surplus	62,700,268	48,286,796
Total capital	167,046,091	127,544,623
 CONTINGENT LIABILITIES (Note G)		
	<u>\$182,793,147</u>	<u>\$156,282,224</u>



STATEMENTS OF CONSOLIDATED SURPLUS
GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

	<i>Year Ended June 30, 1968</i>	<i>Year Ended June 30, 1967</i>
EARNED SURPLUS		
Balance, beginning of year:		
General American Oil Company of Texas and Subsidiaries		\$ 41,676,558
Premier Petrochemical Company (Note C)		(492,567)
Balance, beginning of year, as restated for pooling. . .	\$ 48,286,796	41,183,991
Net income (Note A)	23,322,405	12,829,943*
3% stock dividend (145,863 shares issued January 2, 1968 and 132,000 shares issued January 2, 1967)	(6,035,811)	(3,924,360)
Cash dividends paid (55 cents per share in 1968 and 40 cents per share in 1967)	(2,761,699)	(1,786,400)
Cash dividends paid in redemption of preferred stock of Premier Petrochemical Company (Note C)	(111,423)	—
Treasury shares purchased and reissued in 3% stock dividend — 572 shares in 1967	—	(16,378)
Balance, end of year	<u>\$ 62,700,268</u>	<u>\$ 48,286,796*</u>
CAPITAL SURPLUS		
Balance, beginning of year	\$ 56,597,827	\$ 53,333,467
Market value in excess of par value of shares issued as 3% stock dividend	5,306,496	3,264,360
Excess of principal amount of subordinated debentures over par value of common stock issued upon conversion, less applicable debenture expense (Note D)	16,283,155	—
Adjustments arising in the acquisition of Premier Petrochemical Company, accounted for as a “pooling of interests” (Note C)	(161,375)	—
Balance, end of year	<u>\$ 78,026,103</u>	<u>\$ 56,597,827</u>

* Restated — see Note C.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

A — PRODUCTION PAYMENT ACCOUNTING

A major portion of the oil and gas properties has been acquired subject to production payments reserved by the sellers, payable, together with interest and production taxes, solely from the proceeds of oil and gas.

It is the Company's policy to treat these reserved production payments as a part of the acquisition cost of the properties and to record them as liabilities. The original amounts included in the gross cost of producing oil and gas properties are \$170,294,224 at June 30, 1968 and \$170,334,798 at June 30, 1967. Since the Company has no direct liability on these, the unpaid balances are shown as a deduction from the property accounts on the balance sheet.

Consistent with this treatment, the Company includes in its income the proceeds from the sale of oil and gas applied in liquidation of the production payments. The amounts of such proceeds included under the respective captions and the net proceeds applied in liquidation of production payments during the two years ended June 30, 1968 are as follows:

	1968	1967
Crude oil and gas sales.....	\$19,020,303	\$15,943,291
Less:		
Taxes	1,334,727	1,150,908
Interest expense	3,236,806	3,763,879
	<u>4,571,533</u>	<u>4,914,787</u>
Net proceeds	<u>\$14,448,770</u>	<u>\$11,028,504</u>

B — DEPLETION AND DEPRECIATION

The Company provides for depletion of producing oil and gas leaseholds and for depreciation of related equipment on a unit-of-production basis. All properties acquired prior to June 30, 1959 have been aggregated for this computation. After that date, the properties acquired in each significant acquisition have been aggregated for computation purposes. The unit rate for each aggregated group of properties is determined by dividing the total cost, which includes the original amount of the related production payments, less accumulated depletion and depreciation, by the estimated oil and gas reserves of the aggregated properties, including that portion required to liquidate the production payments. The Company annually recomputes the reserves used in the computations.

C — INVESTMENTS

On October 20, 1967, the Company acquired the remaining outstanding stock of Premier Petrochemical Company, a manufacturer of fertilizers and feed supplements, in exchange for 34,240 shares of common stock in an acquisition treated as a "pooling of interests" for accounting purposes. The Company's financial statements for 1967 have been revised to give effect to this transaction.

The Company's investments in its wholly-owned subsidiaries are carried at equity in their net assets. Information taken from audited financial statements of the wholly-owned subsidiaries for the year ended June 30, 1968, is summarized as follows:

	Stockton, Whatley, Davin & Company and Subsidiaries	Premier Petrochemical Company
Current assets	\$41,202,700	\$ 1,474,348
Investments and other assets	4,094,031	214,249
Property and equipment	4,638,825	2,330,037
	<u>\$49,935,556</u>	<u>\$ 4,018,634</u>
Current liabilities	\$35,689,609(1)	\$ 482,893
Long-term debt	2,998,517	600,000(1)
Common shares and capital surplus	4,974,907	2,422,869
Earned surplus	6,272,523	512,872
	<u>\$49,935,556</u>	<u>\$ 4,018,634</u>
(1) Includes amounts due to Parent Company.....	\$ 4,000,000	\$ 600,000
Income	\$ 7,056,024	\$ 3,797,124
Expenses	5,235,979	3,084,430
Net income	1,820,045	712,694
Earned surplus (deficit) July 1	5,302,478	(28,402)
Dividends paid	(850,000)	(171,420)
Earned surplus June 30	<u>\$ 6,272,523</u>	<u>\$ 512,872</u>

D — CONVERSION OF DEBENTURES

The Company issued 551,841 shares of common stock in connection with the redemption of the 4% Subordinated Debentures on January 19, 1968. The pro forma per share data are based on the assumption that the 551,841 shares were outstanding at the beginning of each year and the related interest on the Debentures has been eliminated.

E — FEDERAL INCOME TAXES

There are substantial differences between taxable income and income for financial statement purposes due to intangible drilling costs, percentage depletion, production payment accounting, and operating loss carryforwards. For the year ended June 30, 1968, there were no federal income taxes payable except on the extraordinary item, and \$1,105,491 of accumulated investment tax credits were used to reduce the computed tax liability on this item.

F — RETIREMENT BENEFITS

The Company and its subsidiaries have a pension plan or a profit sharing plan covering substantially all of their employees.

General American Oil Company of Texas has a non-contributory retirement plan, adopted by most of its subsidiaries, in which the normal cost and 10% of past service cost is funded each year. The actuarially computed value of vested benefits is fully funded. Total cost under this plan was \$354,368 for 1968 and \$350,903 for 1967.

Stockton, Whatley, Davin & Company, a wholly-owned subsidiary, has adopted a profit sharing plan, which provides for deferred vesting with benefits payable upon retirement or earlier termination of employment. The cost under this plan was \$202,227 for 1968 and \$153,228 for 1967.

G — LITIGATION AND CONTINGENT LIABILITIES

In 1956, the lessor of land on which the Meadows Building is located brought suit to cancel the lease. The present lessee, the Employees' Retirement Trust, and the Company are named as defendants in the action. The Trust is protected by title insurance and, in the opinion of the Company's counsel, the suit is without merit.



TEN-YEAR SUMMARY

GENERAL AMERICAN OIL COMPANY OF TEXAS AND CONSOLIDATED SUBSIDIARIES

FINANCIAL POSITION — at June 30,	1968	1967(1)	1966
Current assets	\$ 25,455,882	\$ 14,565,169	\$ 11,708,612
Current liabilities	9,452,420	7,367,973	6,950,473
Working capital	16,003,462	7,197,196	4,758,139
Investments and other assets	37,053,521	33,467,376	30,860,457
Property and equipment	276,910,602	266,970,095	262,524,491
Less — accumulated depletion and depreciation	112,941,856	102,177,490	94,133,533
Less — unpaid production payments	43,685,002	56,542,926	64,511,644
Property and equipment — net	120,283,744	108,249,679	103,879,314
	173,340,727	148,914,251	139,497,910
Less:			
Long-term debt	—	20,000,000	20,426,690
Deferred income	6,294,636	1,369,628	2,077,573
Common stockholders' equity	\$167,046,091	\$127,544,623	\$116,993,647
Common shares outstanding	5,263,944	4,532,000	4,400,000
Common stockholders of record	5,885	5,451	5,371
INCOME STATEMENT — year ended June 30,			
Gross operating income	\$ 46,690,110	\$ 41,173,188	\$ 36,336,598
Operating expenses exclusive of those set forth below	8,573,117	7,984,486	7,579,406
Taxes, including those on income	3,486,878	3,167,356	2,879,027
Dry holes, abandonments and lease rentals	2,175,419	1,569,355	2,078,795
Depletion and depreciation	13,098,222	11,943,271	10,763,823
Operating income	19,356,474	16,508,720	13,035,547
Other gains (losses) after taxes	6,197,880 (3)	—	3,975
Interest and miscellaneous income	1,445,076	1,162,372	941,376
Interest expense	(3,677,025)	(4,841,149)	(5,252,385)
Net income	\$ 23,322,405	\$ 12,829,943	\$ 8,728,513
Net income per common share (2)	\$ 4.43	\$ 2.81	\$ 1.98
Cash flow (net income plus depletion, depreciation and exploratory expenses)	\$ 38,596,046	\$ 26,342,569	\$ 21,571,131
Cash flow per common share (2)	\$ 7.33	\$ 5.77	\$ 4.90
COMMON DIVIDENDS — year ended June 30,			
Cash	\$ 2,761,699	\$ 1,786,400	\$ 1,734,480
Stock (in number of shares)	145,863	132,000	128,172
Cash — per share	\$.55	\$.40	\$.40
Stock — per share	3%	3%	3%
OPERATING STATISTICS — OIL & GAS OPERATIONS			
Texas proration — % of schedule allowable	46.31	34.84	31.32
Net crude oil sales — barrels	10,498,750	9,299,141	8,734,195
Net crude oil sales (daily average)	28,685	25,477	23,929
Net gas sales — Mcf	65,933,251	60,718,442	51,846,050
Average price per barrel	\$ 2.86	\$ 2.83	\$ 2.82
Wells operated — gross	1,862	1,927	2,028
Wells owned — net	1,815	1,861	1,950
Annual payroll	\$ 3,138,655	\$ 3,056,609	\$ 2,959,772
Employees — average	403	417	420

(1) Restated for "pooling of interests" with Premier Petrochemical Company.

(2) Based on number of shares outstanding at end of each year.

(3) Represents gain on sale of Fargo Oils Ltd. stock and other capital gains.

1965	1964	1963	1962	1961	1960	1959
\$ 10,977,804	\$ 11,796,598	\$ 9,671,783	\$ 23,806,768	\$ 23,120,956	\$ 17,466,918	\$ 24,393,814
6,060,395	6,084,594	6,702,480	5,811,937	6,620,432	7,018,666	5,481,057
<u>4,917,409</u>	<u>5,712,004</u>	<u>2,969,303</u>	<u>17,994,831</u>	<u>16,500,524</u>	<u>10,448,252</u>	<u>18,912,757</u>
29,297,797	27,007,758	25,171,748	15,131,745	16,005,813	15,464,757	11,019,774
242,520,499	241,086,236	241,708,773	219,729,282	212,892,428	217,122,460	149,162,493
83,747,377	75,893,609	69,931,215	61,590,574	54,243,669	51,702,639	44,970,325
62,772,178	71,574,813	82,665,602	78,421,723	83,594,151	88,475,698	35,400,191
<u>96,000,944</u>	<u>93,617,814</u>	<u>89,111,956</u>	<u>79,716,985</u>	<u>75,054,608</u>	<u>76,944,123</u>	<u>68,791,977</u>
130,216,150	126,337,576	117,253,007	112,843,561	107,560,945	102,857,132	98,724,508
20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,070,125	20,302,625
105,509	2,971,795	70,869	8,290,463	6,298,091	4,100,952	121,039
<u>\$110,110,641</u>	<u>\$103,365,781</u>	<u>\$ 97,182,138</u>	<u>\$ 84,553,098</u>	<u>\$ 81,262,854</u>	<u>\$ 78,686,055</u>	<u>\$ 78,300,844</u>
4,275,600	4,069,800	3,960,500	3,470,028	3,431,700	3,337,524	3,197,480
5,603	5,833	5,711	4,516	4,751	4,676	4,546
<u>\$ 34,306,259</u>	<u>\$ 34,302,728</u>	<u>\$ 32,932,308</u>	<u>\$ 30,744,250</u>	<u>\$ 31,845,117</u>	<u>\$ 27,952,597</u>	<u>\$ 25,789,454</u>
7,379,010	7,507,998	7,457,861	7,541,284	7,473,487	7,749,396	6,724,822
2,661,891	2,618,034	2,548,001	2,523,876	2,231,542	2,036,400	1,669,363
2,203,257	1,873,592	1,694,893	1,202,800	3,317,089	5,065,322	3,139,591
9,903,639	10,292,144	9,338,810	8,669,115	9,165,066	8,146,162	6,573,575
12,158,462	12,010,960	11,892,743	10,807,175	9,657,933	4,955,317	7,682,103
163,414	662,342	735,500	617,347	(331,358)	45,993	444,629
819,483	974,851	971,307	955,984	728,522	681,176	121,648
(5,206,748)	(5,690,294)	(6,131,849)	(5,977,645)	(5,975,202)	(3,491,877)	(1,592,333)
<u>\$ 7,934,611</u>	<u>\$ 7,957,859</u>	<u>\$ 7,467,701</u>	<u>\$ 6,402,861</u>	<u>\$ 4,079,895</u>	<u>\$ 2,190,609</u>	<u>\$ 6,656,047</u>
\$ 1.86	\$ 1.96	\$ 1.89	\$ 1.85	\$ 1.19	\$.66	\$ 2.08
\$ 20,041,507	\$ 20,123,595	\$ 18,501,404	\$ 16,274,776	\$ 16,562,050	\$ 15,402,093	\$ 16,369,213
\$ 4.69	\$ 4.94	\$ 4.67	\$ 4.69	\$ 4.83	\$ 4.61	\$ 5.12
\$ 1,672,913	\$ 1,772,040	\$ 1,759,041	\$ 1,385,455	\$ 1,364,847	\$ 1,322,265	\$ 1,263,924
205,768	109,365	175,582	101,928	100,125	159,644	152,280
\$.40	\$.40	\$.40	\$.40	\$.40	\$.40	\$.40
5%	3%	5%	3%	3%	5%	5%
28.21	28.29	26.93	26.85	27.67	30.05	36.71
8,141,908	8,801,834	8,769,094	8,377,330	8,944,562	8,816,273	8,231,449
22,307	24,049	24,025	22,952	24,506	24,088	22,552
48,520,793	43,601,352	37,770,336	32,791,812	28,507,388	13,235,465	5,988,033
\$ 2.81	\$ 2.79	\$ 2.80	\$ 2.82	\$ 2.81	\$ 2.75	\$ 2.83
2,080	2,250	2,425	2,465	2,458	3,676	3,438
1,956	2,061	2,235	2,205	2,253	3,164	2,990
\$ 2,883,122	\$ 2,887,785	\$ 2,875,002	\$ 2,868,531	\$ 3,095,533	\$ 3,035,529	\$ 3,017,962
422	435	447	460	505	499	523



AGENTS

GENERAL AMERICAN OIL COMPANY OF TEXAS

GENERAL OFFICES

MEADOWS BUILDING
Dallas, Texas 75206

TRANSFER AGENTS

REPUBLIC NATIONAL BANK OF DALLAS
Pacific and Ervay Streets, Dallas, Texas 75201

THE CORPORATION TRUST COMPANY
277 Park Avenue, New York, New York 10017

REGISTRARS

FIRST NATIONAL BANK IN DALLAS
1401 Elm Street, Dallas, Texas 75201

FIRST NATIONAL CITY BANK
55 Wall Street, New York, New York 10015

DIVIDEND DISBURSING AGENT

REPUBLIC NATIONAL BANK OF DALLAS
Pacific and Ervay Streets, Dallas, Texas 75201

GENERAL AMERICAN OIL COMPANY OF TEXAS
Dallas, Texas